2003 Annual Report

EXCEED ENERGY Inc.

HIGHLIGHTS

- *Completed Private Placement*
- *Closed fully subscribed IPO*
- *Commenced trading on TSX Venture Exchange*
- *Drilled and Completed first wells with Acclaim*
- *Established prospect inventory for 2004 drilling program*

Exceed Energy is pleased to present its report to shareholders for our first year-end. In this year of business we entered into a joint venture with Acclaim Energy Inc. to participate in the exploitation of its extensive inventory of undeveloped acreage. We closed a private placement of $1,250,000 and completed a very successful Initial Public Offering of $10,025,000. We assembled a team of professionals with a wealth of managerial experience together with technical capability in the Western Canadian Sedimentary Basin.

Exceed's focus for growth is in areas of the western provinces where, through past experience, management believes success can be achieved through exploration and development drilling. With high commodity prices, competition for quality opportunities is fierce. Nevertheless, as an exploration and development company we are very deliberate in our technical evaluation of opportunities. We employ detailed technical application of 2D and 3D seismic, engineering, petrography and petrophysical analysis. This is a sound approach to exploration success.

In this very competitive environment, we are fortunate to have a joint venture with Acclaim Energy Inc. In the beginning, the pace of activity in the joint venture was slower than expected, however, recently, the pace has increased. With Acclaim, we drilled and completed two development wells at Morinville, shot a 3D seismic program at Spruce Grove and identified up to six development drilling locations. At Golden Spike, Exceed shot a 3D program and identified and committed to drill one exploration and one development well in the area on lands owned by Acclaim and another energy trust. Exceed may earn additional lands by drilling a further two exploration and three development wells.

In addition to the Acclaim joint venture we have reviewed in excess of 40 farm-in/joint venture opportunities. As a result of our rigorous screening process, we have finalized, or are in the process of finalizing negotiations to drill a minimum of four more exploration wells in three separate areas of south-central Alberta. Exploration success in any or all of these areas will lead to development activity and validate further exploration ideas.

Exceed will continue to pursue a strategy of exploration and development in areas where we combine our technical expertise with a commitment to detailed evaluation. We focus on opportunities which provide a land base for expansion. We have worked hard over the past year to secure these types of opportunities and believe this strategy will yield strong growth as we exploit our inventory of exploration and development prospects generated for the coming year.

Energy Pricing

The current high commodity price environment, in the Company's view, calls for caution. Oil and gas exploration and development is a cyclical business heavily influenced by commodity pricing. We must always be aware of and prepared for the possibility of price reductions. In addition, current oil and gas prices create a competitive environment where prices for land, drilling or other services are at very high levels. The Company will be prudent in assessing the economics of business deals and the cost of drilling and related services.

2003 Reserves

The corporate reserve estimates were prepared by the independent engineering firm of Sproule Associates Limited ("Sproule") as at December 31, 2003. Sproule evaluated 100% of Exceed Energy's reserves.

As Exceed did not commence operations until September 2003 comparatives for the year-end 2002 are not available. Numbers may not add due to rounding.

The Sproule report is prepared in accordance with the definitions set out under National Instrument 51-101 ("NI 51-101") the new standards of disclosure for oil and gas activities as mandated by the Canadian Securities Administrators for the year-end beginning December 31, 2003. NI 51-101 replaces the former National Policy 2-B (NP 2-B") and requires a higher degree of confidence in the assignment of oil and gas reserves.

2003 Annual Report to the Shareholders of Exceed Energy Inc.

Utilizing the methodology and definitions as set out under NI 51-101, and using constant prices, the Company's December 31, 2003 reserves are as follows:

	Company Interest Reserves Before Royalty				Before Tax Present Value of Future Net Revenues (000s) Discounted At		
	Oil (mbbls)	Gas (mmcf)	NGLs (mbbls)	BOEs (mboe)	0%	10%	12%
Proved Undeveloped	17.0	85	-	31	779	615	589
Total Proved	17.0	85	-	31	779	615	589
Probable	8.5	143	-	32	801	440	396
Proved Plus Probable	25.5	228	-	64	1,580	1,054	985

Note: Where amounts and volumes are expressed on a barrel of oil equivalent ("boe") basis, gas volumes have been converted to barrels of oil at 6,000 cubic feet per barrel (6 mcf/bbl). Boes may be misleading, particularly if used in isolation. A boe conversion of 6 mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

2004 Outlook

Using the Sproule January 1, 2004 price forecast, Exceed's total proved and total proved plus probable reserves were valued at a net present value of $451 thousand and $725 thousand respectively, utilizing a 10% discounted rate. It should not be assumed that estimates of future revenues represent fair market values.

Barry Dorin
President & CEO

Rick Orman
Executive Vice Chairman

May 1, 2004

For the period commencing March 25, 2003 and ending December 31, 2003.

This Management Discussion and Analysis ("MD&A") was prepared on April 19, 2004 and should be read in conjunction with the audited financial statements together with the accompanying notes for the period ended December 31, 2003. There are no comparatives to prior reporting periods as this report covers the initial period of Exceed Energy Inc. ("Exceed" or the "Company").

Reserve information is reported in units of thousands of barrel of oil equivalent or mboe. For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil.

Readers should be aware that historical results are not necessarily indicative of future performance.

Liquidity and Capital Resources

Exceed Energy Inc. was incorporated under the *Business Corporations Act* (Alberta) on March 25, 2003 and shortly thereafter completed a private placement of 5,000,000 Class A shares for total consideration of $1,250,000.

Subsequently, in a successful Initial Public Offering which closed on September 10, 2003, Exceed raised $10,025,000 before share issue expenses of $983,714.

The proceeds of the offering were applied to initial capital expenditures, which were as follows at December 31, 2003:

Geological and geophysical	$519,120
Intangible drilling	$566,670
Equipping	$40,600
Land	$10,000
Office furniture and computer equipment	$49,017
Total capital expenditures:	$1,185,407

With these funds, the Company drilled two development wells (0.75 net wells) in the Morinville area and completed a five square mile 3D seismic program in the Spruce Grove area of Alberta. The 3D seismic was the first phase of a development program. For assuming the cost associated with the 3D program and by drilling one well, Exceed will earn in up to 2,300 (460 net) acres of Acclaim Energy Inc. ("Acclaim") lands. Drilling activity produced one oil well and one gas well and resulted in the Company having independently evaluated reserves of 31 mboe proved and 64 mboe proved plus probable reserves as at December 31, 2003.

At December 31, 2003, Exceed had working capital of $8,826,550.

At December 31, 2003, the Company had $8,939,210 in unspent qualified expenditures. The Company has no long-term debt and has not yet applied for a bank line. In addition to its working capital, Exceed anticipates having three sources of available funding to finance its capital expenditure program; internally generated cash flow from operations; debt financing when appropriate; and, new equity issues if available on favourable terms. Any combination of these sources of funding should be sufficient to fulfill the Company's planned growth and future

2003 Annual Report to the Shareholders of Exceed Energy Inc.

exploration and development activities, obligations and working capital requirements over the 2004 fiscal period.

The Company has no off-balance sheet arrangements.

Shares Outstanding

Authorized share capital consists of an unlimited number of voting Class A shares and an unlimited number of voting Class B shares. On March 31, 2004, there were 12,015,000 Class A and 852,125 Class B shares outstanding.

No equity securities are issuable on conversion of outstanding securities at this time. However, the Class B shares are convertible into Class A shares at the option of the Company at any time after December 31, 2006 and up to December 31, 2008. After that time, the Class B shares automatically convert into Class A shares. The conversion ratio is calculated by dividing $10 by the greater of $1 or the prevailing market price of the Class A shares. A maximum of 8,521,250 Class A shares are issuable on the conversion of the Class B shares.

Administrative Expenses

For the period ending December 31, 2003 Exceed's general and administrative expenses were $377,953 consisting of:

Salaries & benefits	$240,231
Consulting fees	17,160
Public company costs	7,573
Office rent, parking and supplies	78,508
Professional Fees	26,721
Computer services and software licenses	7,760

Exceed had four employees commencing May 2003 and increased that number to five, effective September 2003. From time to time the Company employs geological, geophysical and land consultants. Officers and employees are being paid annual salaries of no more than $85,000 each during the year.

Office space was sub-leased over the period at a total cost of $45,717. Effective January 1, 2004, the Company leased office space at $7,599 per month and is currently subletting its excess space at $2,300 per month on a month to month basis for net rent of $5,299 per month including common area and operating costs. The lease terminates September 30, 2006.

Stock Based Compensation

Compensation expense was recorded in the amount of $20,356 and the same amount was credited to contributed surplus. The compensation expense for the year was recorded in the fourth quarter.

Interest Income

Cash is held in deposits with 30 day maturities. Exceed earned $98,623 in interest income during the period ended December 31, 2003.

After January 2004, interest is payable on flow-through funds that remain unspent at the end of each month, at the Canada Revenue Agency's stated rate at that time. At December 31, 2003, this rate was 5% per annum and the Company had $8,939,210 in unspent qualified expenditures.

Depreciation and Depletion

Depreciation was $6,343 on office equipment and furniture for the period ended December 31, 2003. No depletion or depreciation has been recorded on the oil and gas properties as production had not yet commenced. It is expected that production will occur in the second quarter of 2004 and depletion will be calculated subsequent to that date.

Income Taxes

There were no current income taxes in 2003. Current taxes are not expected in 2004 based on existing tax pools, planned capital activities and drilling success rate. However, a change in any number of factors, including commodity prices, future production, corporate expenses or both the type and amount of capital expenditures incurred during the year could affect the Company's tax horizon.

The Company renounced $10,025,000 in Canadian Exploration Expense December 31, 2003. Effective December 31, 2003, $1,085,790 of such expenses have been incurred. The Company has until December 31, 2004 to incur the remaining $8,939,210.

Outlook

As of the date of this MD&A, Exceed had spent $1.3 million under its Participation Agreement with Acclaim Energy Inc. The Participation Agreement is ongoing and Exceed's geological, engineering and land team continue to work with Acclaim to evaluate and drill development and exploration prospects.

As a result of the seismic in Spruce Grove, Exceed and Acclaim have identified two firm locations and four contingent locations targeting oil in the Detrital formation. Acclaim is in the process of acquiring surface access and drilling is expected to commence in the second quarter of 2004. Exceed will have a 50% working interest in these wells and lands. Successful wells can be quickly tied into nearby production facilities.

Exceed has successfully completed a farm-in with Acclaim and another energy trust in the Golden Spike area and will commence drilling operations as soon as possible. On a rolling drilling option basis, Exceed has committed to drill one exploration and one development well. With success, the Company has an option to drill an additional two exploration and three development wells to earn an interest in up to ten gross sections of undeveloped land.

In addition to the joint venture with Acclaim, Exceed has a number of projects at various stages of negotiation. In West Ferrier, the Company is finalizing negotiations to drill one exploratory well with rolling options to earn an interest in twelve sections of undeveloped land. Also, in two separate deals, Exceed is finalizing negotiations to drill three exploration wells – one in the Red Deer area and two northwest of Drumheller.

Oil and gas prices are at near record highs. As a result, most producing companies have the capital required to drill their best oil and gas prospects. This has increased the challenge of finding quality prospects.

Nevertheless, we continue to evaluate a number of promising prospects in our focus areas that have been presented by third parties. As part of our commitment to spend $10,025,000 of qualifying expenditures in 2003 and 2004, as of the date of this MD&A we have spent or committed to spend $2,600,000, are in the processing of finalizing negotiations totaling $1,200,000 and have identified additional opportunities within our control totaling a further $1,800,000.

Quarterly Results

The following table summarizes quarterly information relating to the Company:

2003 Quarter Ended	December 31	September 30	June 30	March 31	Total
Interest Income	$77,904	$20,719	---	---	$98,623
Net Loss	($9,865)	($193,964)	---	---	($203,829)
Per Common Share (basic)	(0.001)	(0.027)	---	---	(0.0175)
Per Common Share (diluted)	(0.001)	(0.027)	---	---	(0.0175)
Total Assets	$ 10,229,569	$ 10,638,860	---	---	$ 10,229,569
Total long-term liabilities	---	---	---	---	---

Quarter Ended September 30, 2003

The Company commenced operations March 25, 2003 as a private company. Subsequently, the Company raised $1,250,000 in seed capital, completed its initial public offering of flow-through shares for gross proceeds of $10,025,000, and commenced trading as a public company September 19, 2003. Capital expenditures were $33,267 consisting of $5,000 for geological costs and $28,267 for furniture, fixtures and computer equipment. The Company incurred a loss of $193,964, or $0.027 per share, which consisted of $214,683 of administrative expense offset by $20,719 of interest income.

Quarter Ended December 31, 2003

Two gross (0.75 net wells) were drilled and the Company completed a 5 square mile 3D seismic program. Capital expenditures were $1,152,140 consisting of $10,000 for land, $514,120 for geological and geophysical costs, $607,270 for development drilling and facilities, and $20,750 for fixtures and computer equipment. The Company incurred a loss of $9,865 or $0.001 per share, which consisted of $163,270 of administrative expense, $20,356 in stock based compensation expense, and $6,343 in depreciation, offset by $77,904 of interest income and a $102,200 future income tax recovery. Effective December 31, 2003, the Company renounced tax pools of $10,025,000 in Canadian exploration

expense to the holders of the shares issued in its initial public offering, of which approximately $1,085,790 in qualified expenditures were made to December 31, 2003.

Year Ended December 31, 2003

Net loss for the reporting period ending December 31, 2003 was $203,829. This resulted in a loss per share of $0.0175 for the year.

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles

Transactions with Related Parties

The Company issued 1,720,000 Class A shares to directors and officers, and members of their immediate families, pursuant to a private placement June 20, 2003.

During the initial period, certain directors and officers of the Company purchased 60,000 flow-through Class A shares for $15,000 and 8,500 flow-through Class B shares for $85,000.

2003 Annual Report to the Shareholders of Exceed Energy Inc.

Initial Adoption of Accounting Policies

The Company has elected to early adopt the following 2004 CICA recommendations and guidelines for purposes of preparing its 2003 financial statements:

Section 3110 -	Asset Retirement Obligations;
Section 3870 -	Stock-Based Compensation and Other Stock-Based Payment (requirement to expense fair value of stock options over the vesting period of the related options); and,
Accounting Guideline 16-	Oil and gas accounting – full cost.

Business Risks and Uncertainty

Natural gas and crude oil exploration, development, production and marketing operations inherently have a number of business risks including the difficulties of finding new reserves, the instability of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations. Exceed manages these risks by employing competent professional staff, following sound operating practices, utilizing cash flow from operations and the prudent issuance of equity to fund capital expenditures so that debt does not become a burden.

The Company is focused on internally and externally generated exploration prospects. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. These analyses are used to ensure a suitable balance between risk and reward.

Exceed conducts its operations in a manner consistent with environmental regulations as stipulated in provincial and federal legislation. The Company is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased capital and operating expenditures as a result of the increasingly stringent laws relating to the protection of the environment.

The Company's operations are subject to the risks normally associated with the oil and gas industry including hazards such as unusual or unexpected geological formations, high reservoir pressures, and other conditions involved in drilling and operating wells. Exceed endeavours to manage these risks using prudent safety and risk management, including insurance coverage against potential losses.

The oil and gas industry is subject to considerable price volatility, over which companies have little control. A material decline in the price of oil and/or natural gas could result in a significant decrease in Exceed's future anticipated revenues. The oil and gas industry has inherent business risks and there is no assurance that products can continue to be produced at economic rates and changes in production volumes are daily risks in the oil and gas industry.

Exceed utilizes the skills of Sproule Associates Limited, experienced independent engineering experts, when determining its reserve additions. By virtue of the relatively short production history of our projects, the reserves assigned and production forecasts related to the majority of the Company's projects have been determined based on volumetric calculations and production test data and the ultimate performance and reserves are subject to variability. There was no production in 2003. Over time, as production history is gained, it is expected that the variability of these forecasts will lessen.

Special Note Regarding Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These forward-looking statements speak only as of the date of this MD&A.

In particular, this MD&A may contain forward-looking statements pertaining to the following:

- oil and natural gas production levels;
- capital expenditure programs;
- the quantity of oil and natural gas reserves;
- projections of market prices and costs;
- supply and demand for oil and natural gas;

- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development; and
- treatment under governmental regulatory regimes.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- the other factors discussed under "Business Risks and Uncertainty" herein and under "Risk Factors" in the Company's prospectus dated August 25, 2003.

These factors should not be considered exhaustive. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

Exceed is a Calgary-based emerging oil and gas company engaged in the exploration, development, and production of crude oil and natural gas in Western Canada. Exceed's Class A and Class B shares trade on the TSX Venture Exchange under the symbols "EX.A" and EX.B" respectively.

Additional Information

Additional information relating to the Company and its operations is available on SEDAR at www.sedar.com

Exceed Energy Inc.
Financial Statements

For the period commencing March 25, 2003
and ending December 31, 2003

Contents

(The accompanying notes are an integral part of these financial statements.)

Auditors' Report

To the Shareholders of
Exceed Energy Inc.

We have audited the balance sheet of Exceed Energy Inc. as at December 31, 2003 and the statements of operations and deficit and cash flows for the initial nine month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the initial nine month period then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP
Chartered Accountants

BDO Dunwoody LLP

Calgary, Alberta
April 9, 2004

Exceed Energy Inc.
Balance Sheet

As at December 31,	2003
Assets	
Current	
Cash and cash equivalents	$ 9,006,632
Accounts receivable	42,173
	9,048,805
Property and equipment (Note 3)	1,180,764
	$ 10,229,569

Liabilities and shareholders' equity	
Current	
Accounts payable and accrued liabilities	$ 222,255
Asset retirement obligation (Note 4)	1,700
Future income tax liability (Note 5)	3,219,837
	3,443,792
Shareholders' equity	
Share capital (Note 7 (b))	6,791,893
Contributed surplus (Note 7 (c) and (e))	197,713
Deficit	(203,829)
	6,785,777
	$ 10,229,569

Approved on behalf of the Board:

Michael E.J. Phelps, O.C.,
Director

Irvine J. Koop, P. Eng.,
Director

Exceed Energy Inc.
Statement of Operations and Deficit

For the period commencing March 25, 2003 and ending December 31,		2003
Expenses		
General and administrative	$	377,953
Stock based compensation expense		20,356
Amortization		6,343
Loss from operations before other income and taxes		**(404,652)**
Other income		
Interest		98,623
Loss before taxes		**(306,029)**
Future tax recovery		**102,200**
Net loss for the period, representing deficit, end of period	**$**	**(203,829)**
Loss per common share – basic (Note 8)	**$**	**(0.0175)**
Weighted average number of shares outstanding		**11,635,376**

The diluted loss per share has not been presented as such would be anti-dilutive.

Exceed Energy Inc.
Statement of Cash Flows

For the period commencing March 25, 2003 and ending December 31,		2003
Cash flows from operating activities		
Net loss for the period	$	(203,829)
Items not affecting cash:		
Amortization		6,343
Stock based compensation		20,356
Future income tax recoveries		(102,200)
		(279,330)
Changes in non-cash working capital balances:		
Accounts receivable		(42,173)
Accounts payable		6,034
		(315,469)
Cash flows from financing activities		
Issue of share capital, net of related expenses		10,291,287
Cash flows from investing activity		
Purchase of property and equipment		(1,185,407)
Purchase of property and equipment in accounts payable		216,221
		(969,186)
Increase in cash, representing cash and cash equivalents, end of period	$	9,006,632

1. Nature of Operations

Exceed Energy Inc. ("Exceed" or the "Company") was incorporated under the Business Corporations Act (Alberta) on March 25, 2003. Exceed is a public company listed on the TSX Venture Exchange. The Company is engaged in exploration, development and production of crude oil and natural gas in western Canada.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Property and equipment

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs relating to the acquisition, exploration and development of oil and natural gas reserves, including asset retirement costs, are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, related production equipment costs, asset retirement and abandonment costs and overhead charges directly related to acquisition, exploration and development activities.

Capitalized costs, excluding costs related to unproven properties, will be depleted and depreciated using the unit-of-production method based on estimated proven oil and natural gas reserves before deduction of royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted to equivalent barrels of oil using a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate. An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

i. the fair value of proved and probable reserves; and

ii. the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Furniture, fixtures and computer equipment are recorded at cost and will be amortized on a declining basis rate of between 20% and 30% per annum. In the year of acquisition, 50% of the above rates are applied.

2. Significant Accounting Policies - continued

(b) Joint venture operations

The majority of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Asset retirement obligation

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of earnings under asset retirement obligations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based on estimated gross proven reserves as determined by independent engineers.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and investments in money market instruments with maturities of three months or less.

(e) Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a reduction of share capital and an increase in future income tax at the earlier of the effective date of the renunciation or the date of expenditure.

(f) Revenue recognition

Revenues from crude oil, natural gas and natural gas liquids are recorded when title passes to its customers. Alberta Royalty Tax Credits are included in oil and gas sales.

(g) Future income taxes

The liability method is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(h) Stock based compensation plan

The fair value method of accounting is used for stock based employee compensation. The fair value of stock options awarded to employees under the Company's stock option plan is based on the market price of the shares at the date of the grant and is determined using the Black-Scholes option pricing model. The amount of the fair value is charged to earnings over the period of vesting of the stock and a corresponding credit is made to contributed surplus.

2. Significant Accounting Policies - continued

(i) Per share amounts

Basic loss per common share is computed by dividing earnings from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(j) Financial instruments

The Company carries a number of financial instruments as detailed on the balance sheet. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(k) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality.

The amounts recorded for depletion and depreciation of oil and natural gas properties, the liability for asset retirement obligations and the amount recorded for future income taxes are based on estimates. The impairment test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

3. Property and Equipment

	Cost $	Accumulated amortization $	**Net book value $**
Exploration, development and related equipment expenditures	1,138,090	-	**1,138,090**
Furniture, fixtures, and computer equipment	49,017	6,343	**42,674**
	1,187,107	6,343	**1,180,764**

3. Property and Equipment - continued

No depletion or depreciation has been recorded on oil and natural gas properties as production has not yet commenced.

The Company applied an impairment test to capitalized costs at December 31, 2003 to determine whether such costs may be recovered in the future. Capitalized costs exceeded the estimated future cash flows from production of proven oil and natural gas reserves and capitalized amounts relating to unproved properties subject to an impairment test by $125,500 thereby indicating a potential impairment. As directed by the full cost guideline when a potential impairment loss has been identified the impairment is measured by comparing total capitalized costs to the fair value of proved and probable reserves and the cost of unproved properties that contain no probable reserves. The fair value of the proved and probable reserves was determined based upon the net present value of projected future cash flows in the externally prepared reserve report. The total of the estimated fair value of the reserves and the unproved properties exceeded total capitalized costs indicating that no impairment writedown was necessary. Commodity prices used in the determination of cash flows are as follows:

	Wellhead Prices	
	Oil $/bbl	Natural Gas $/mcf
2004	37.39	7.34
2005	33.65	6.49
2006	32.27	5.79
2007	32.77	5.93
2008	33.27	6.01
% increase to 2015	1.5%	1.5%

4. Asset Retirement Obligation

The Company estimates the undiscounted cash flows related to asset retirement obligations adjusted for inflation, to be incurred over the estimated reserve life of the underlying assets will total approximately $8,000. The fair value at December 31, 2003 is $1,700 using a discount rate of seven percent and an inflation rate of two percent. As at December 31, 2003, no funds have been set aside to settle this obligation.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties.

		2003
Asset retirement obligation, beginning of period	$	-
Liabilities incurred		1,700
Liabilities settled		-
Accretion expense		-
Revisions		-
Asset retirement obligation, end of period	$	1,700

5. Income Taxes

The effective tax rate of income tax varies from the statutory rate as follows:

		2003
Combined tax rates		40.7%
Expected income tax recovery at statutory rate	$	124,686
Reduction in tax rate		(12,241)
Non-deductible expenses		(10,245)
Actual income tax recovery	$	102,200

The components of the Company's future income tax asset/liability are a result of the origination and reversal of temporary differences and are comprised of the following:

		2003
Future tax assets		
Share issue costs	$	305,598
Unused tax losses carry forward		155,751
		461,349
Future tax liabilities		
Flow-through shares		(3,265,969)
Property and equipment		(415,217)
		(3,681,186)
Future income tax liability	$	(3,219,837)

The Corporation's non-capital losses for Canadian income tax purposes of approximately $423,800 are available to be carried forward to offset taxable income in future years and expire in 2010. The Corporation's tax pools were approximately $100,000 at December 31, 2003.

6. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

During the initial period, the Company rented office space for $45,717 from a company controlled by a director and officer of the Company.

During the initial period, the Company purchased $16,610 of office furniture, telephone and computer equipment from a company controlled by a director and officer of the Company.

These transactions are in the normal course of operations and have been recorded at the exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

7. Share Capital

(a) Authorized

Unlimited number of Class A shares.

Unlimited number of Class B shares. The Class B shares are convertible into Class A shares, at the option of the Company, at any time after December 31, 2006 and before December 31, 2008. The ratio is calculated by dividing $10 by the greater of $1 or the prevailing market price of the Class A shares. If the conversion has not occurred by the close of business on December 31, 2008, the Class B shares become convertible, at the option of the shareholder, into Class A shares on the same basis. Effective on February 1, 2009, all remaining Class B shares will automatically be converted to Class A shares on the same basis.

Unlimited number of First Preferred shares without nominal or par value.

Unlimited number of Second Preferred shares without nominal or par value.

(b) Issued

Common shares

Class A	Number of Shares	Amount
Issued for oil and gas interests (c)	2,000,000	$ 1
Issued for cash by a private placement	5,000,000	1,250,000
Cancelled pursuant to initial public offering (c)	(1,000,000)	(177,357)
Issued for cash pursuant to flow-through share initial public offering (d)	6,015,000	1,503,750
Future taxes on flow-through shares	-	(552,523)
Balance, end of period	12,015,000	1,401,606
Class B		
Issued for cash pursuant to flow-through share initial public offering (d)	852,125	8,521,250
Future taxes on flow-through shares	-	(3,130,963)
Balance, end of period	852,125	5,390,287
Share issue costs (net of future tax savings of $361,449)	-	(622,265)
		$ 6,791,893

(c) The Company purchased certain oil and gas interests from two directors, who are also officers (the "Founding Shareholders") of the Company by issuing 2,000,000 Class A shares. In order to facilitate the initial public offering, the Founding Shareholders returned for cancellation 1,000,000 Class A shares for no consideration. At the time of cancellation, share capital attributed to the Class A shares was reduced by $177,357 based on the then average amount paid per share. As no consideration was paid for the shares, this amount was added to contributed surplus.

7. Share Capital - continued

(d) Pursuant to a prospectus dated August 25, 2003, the Company issued 10,025 units at a price of $1,000 per unit for total proceeds of $10,025,000. Each unit consisted of 600 Class A common shares at $0.25 per share and 85 Class B shares at $10.00 per share. Pursuant to the offering, the Company issued 6,015,000 flow-through Class A shares and 852,125 flow-through Class B shares for $1,503,750 and $8,521,250, respectively. As at December 31, 2003, the Company has spent $1,085,790 of the total amount of $10,025,000 which had been renounced effective December 31, 2003. The Company has committed to spend the remaining $8,939,210 during 2004. Certain directors and officers purchased 60,000 flow-through Class A shares for $15,000 and 8,500 flow-through Class B shares for $85,000.

(e) On September 18, 2003 the Company granted 1,175,000 stock options to officers, directors, employees and consultants of the Company. The options will entitle the holders to acquire shares at an exercise price of $0.35 per share until September 18, 2008. These options vest one-third annually commencing September 18, 2004 and have a remaining contracted life of 4.75 years. The Company authorized and reserved 1,286,712 shares for the issuance of stock options.

Compensation expense was recorded in the amount of $20,356 and the same amount was credited to contributed surplus. The compensation expense for the year was recorded in the fourth quarter.

The fair value of share options was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.30), risk-free interest rate (5.0%), and weighted average life of 5 years.

(f) At December 31, 2003, 1,900,800 outstanding Class A shares were in escrow pursuant to the requirements of the TSX Venture Exchange. These escrowed shares are to be released in 316,800 share tranches during consecutive six-month intervals beginning on September 10, 2003 and ending on September 10, 2006.

8. Commitments

Effective January 1, 2004, the Company leased its office premises with future lease payments of $7,599 per month, inclusive of operating costs. The lease was assumed from a company controlled by an officer and director of the Company. The lease terminates September 30, 2006.

Pursuant to the flow-through common shares issued (Note 7(d)), the Company is committed to spending $10,025,000 on qualified expenditures by December 31, 2004. As of December 31, 2003, the Corporation has expended $1,085,790 on qualified expenditures.

9. Per Share Amounts

The Company follows the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only dilutive instruments for which the exercise price is less than market price impact the diluted calculations.

9. Per Share Amounts - continued

To attain the weighted number of shares, the weighted average Class B shares outstanding during the year are added to Class A shares. The number of Class A shares obtained upon conversion of each Class B share will be equal to $10 divided by the greater of $1 or the then current market price of the Class A shares. The closing price of a Class A share at September 30, 2003 was $0.94.

In computing the diluted per share amount for the period ended December 31, 2003, 755,358 would have been added to the weighted average number of Class A shares outstanding.
The following reconciles the denominators for basic and diluted loss per common share calculations:

	Number
Class A shares	7,737,358
Class B shares (converted into Class A shares)	3,898,018
Basic	11,635,376
Dilutive securities:	
Exercise of options	755,358
Diluted	12,390,734

10. Financial Instruments

As disclosed in Note 2(j), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value, interest rate and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Commodity price risk

The Company will be subject to commodity price risk for the delivery of natural gas and crude oil.

Credit risk

A significant portion of the Company's cash is currently held with the same financial institution and, as such, the Company is exposed to concentration of credit risk. Substantially all the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

11. Contingencies

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. The Company has recognized a liability at December 31, 2003 of $1,700 related to

11. Contingencies - continued

the retirement of its long-lived petroleum assets based on current legislation and estimated costs. Any changes in these estimates will affect future earnings.

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one-quarter or year.

Corporate Directory

Head Office

Exceed Energy Inc.

Suite 1100, 744-4th Avenue S.W
Calgary, Alberta T2P 3T4
Telephone: (403) 508-1853
Facsimile: (403) 508-1781
Email: info@exceedenergy.com
Website: www.exceedenergy.com

DIRECTORS & OFFICERS

Michael E. J. Phelps, O.C.
Chairman of the Board
Vancouver, B.C.

Irvine J. Koop, P. Eng.
Director
Calgary, Alberta

William S. Maslechko
Director
Calgary, Alberta

Barry P. Dorin, P. Eng.
President, CEO & Director
Calgary, Alberta

Rick Orman
Executive Vice Chairman & Director
Calgary, Alberta

John F. Ritchie
Vice President Corporate Finance, CFO & Director
Calgary, Alberta

Janine Harder, P. Geol.
Vice President, Exploration
Calgary, Alberta

Annual Meeting

June 10, 2004, 3:30 p.m.

Frank L. Burnet Boardroom
Offices of Burnet, Duckworth & Palmer LLP
1400, 350 7th Avenue S.W.
Calgary, Alberta

EVALUATION ENGINEER
Sproule Associates Limited
Calgary, Alberta

TRANSFER AGENT
Valiant Trust Company
Calgary, Alberta

SOLICITORS
Burnet Duckworth & Palmer LLP
Calgary, Alberta

AUDITORS
BDO Dunwoody LLP
Charted Accountants
Calgary, Alberta

BANKER
National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE
TSX Venture Exchange
Trading Symbols: **EX.A and EX.B**